

**ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON FISHERIES**

May 13, 2021
10:05 a.m.

MEMBERS PRESENT

Representative Geran Tarr, Chair
Representative Louise Stutes, Vice Chair
Representative Jonathan Kreiss-Tomkins
Representative Andi Story
Representative Dan Ortiz

MEMBERS ABSENT

Representative Sarah Vance
Representative Kevin McCabe

COMMITTEE CALENDAR

HOUSE BILL NO. 188

"An Act relating to a seafood product development tax credit; providing for an effective date by repealing secs. 32 and 35, ch. 61, SLA 2014; and providing for an effective date."

- HEARD AND HELD; MEETING RECESSED TO 5/15/21

HOUSE BILL NO. 82

"An Act relating to surface use restrictions for oil and gas leases; relating to gas leases in Kachemak Bay; relating to the renewable energy grant fund; and providing for an effective date."

- BILL HEARING CANCELED

PRESENTATION(S): Department of Natural Resources Water
Regulation Changes

- SCHEDULED BUT NOT HEARD

PREVIOUS COMMITTEE ACTION

BILL: HB 188

SHORT TITLE: SEAFOOD PRODUCT DEVELOPMENT TAX CREDIT

SPONSOR(S): REPRESENTATIVE(S) STUTES

04/26/21 (H) READ THE FIRST TIME - REFERRALS

04/26/21	(H)	FSH, FIN
05/06/21	(H)	FSH AT 10:00 AM GRUENBERG 120
05/06/21	(H)	Heard & Held
05/06/21	(H)	MINUTE(FSH)
05/11/21	(H)	FSH AT 10:00 AM GRUENBERG 120
05/11/21	(H)	-- Delayed to 5/12/21 --
05/12/21	(H)	FSH AT 0:00 AM GRUENBERG 120
05/12/21	(H)	-- MEETING CANCELED --
05/13/21	(H)	FSH AT 10:00 AM GRUENBERG 120

WITNESS REGISTER

SARA PERMAN, Staff
 Representative Louise Stutes
 Alaska State Legislature
 Juneau, Alaska

POSITION STATEMENT: Offered a recap of and answered questions pertaining to HB 188 on behalf of Representative Stutes, prime sponsor.

NICOLE REYNOLDS, Deputy Director
 Tax Division
 Alaska Department of Revenue
 Anchorage, Alaska

POSITION STATEMENT: Answered questions during the hearing on HB 188

MARK PALMER, President/CEO
 OBI Seafoods
 Seattle, Washington

POSITION STATEMENT: Responded to questions during the hearing on HB 188.

CHRIS BARROWS, President
 Pacific Seafood Processors Association
 Seattle, Washington

POSITION STATEMENT: Offered feedback during the hearing on HB 188.

ACTION NARRATIVE

[10:05:25 AM](#)

CHAIR GERAN TARR called the House Special Committee on Fisheries meeting to order at 10:05 a.m. Representatives Tarr, Stutes, Kreiss-Tomkins, Story, and Ortiz were present at the call to order.

HB 188-SEAFOOD PRODUCT DEVELOPMENT TAX CREDIT

10:06:02 AM

CHAIR TARR announced that the only order of business would be HOUSE BILL NO. 188, "An Act relating to a seafood product development tax credit; providing for an effective date by repealing secs. 32 and 35, ch. 61, SLA 2014; and providing for an effective date."

CHAIR TARR reviewed that the committee had heard invited and public testimony at its previous hearing of the bill on 5/6/21.

10:06:55 AM

SARA PERMAN, Staff, Representative Louise Stutes, Alaska State Legislature, offered a recap of HB 188, which she said would [extend the sunset on] a tax credit established in 2003. The credit initially applied to salmon and allowed processors a tax credit on any equipment used toward value-added production. In 2014, the credit was expanded to include herring. Under HB 188, pollock and cod would also qualify. She explained that the sunset date would be extended retroactively back to January 1, 2021.

CHAIR TARR invited questions from the committee.

10:08:07 AM

REPRESENTATIVE KREISS-TOMKINS noted that Section 4 of HB 188 would delete language that would prevent the tax credit from exceeding 50 percent of the total tax liability, and he asked why that was included in the proposed legislation.

MS. PERMAN offered her understanding that the purpose is to delete duplicative language, and she said she would find the language elsewhere in the bill and get back to Representative Kreiss-Tomkins on that issue.

REPRESENTATIVE KREISS-TOMKINS shared that he spotted the language in Section 1. He then mentioned the issue of on-shore and off-shore pollock processing and the federal government's mandate that at least 50 percent of the pollock caught in the shores off Alaska must be processed in on-shore processing facilities, which he said provides jobs for Alaskans. Regarding that which was processed at sea, he asked whether the processing

vessels would be able to qualify for the tax credits under HB 188.

MS. PERMAN directed attention to language in Section [2], and in response to a follow-up question, confirmed that the answer to Representative Kreiss-Tomkins' question was yes.

[10:11:24 AM](#)

REPRESENTATIVE KREISS-TOMKINS observed that Section 2 addresses [off-shore] facilities qualifying for the tax credits, and he questioned how frequently vessel-based facilities currently qualify for the tax credit for herring and salmon.

[10:12:19 AM](#)

NICOLE REYNOLDS, Deputy Director, Tax Division, Alaska Department of Revenue, said she would need to look at data and get back to Representative Kreiss-Tomkins.

[10:12:57 AM](#)

MARK PALMER, President/CEO, OBI Seafoods, to the same question, said OBI Seafoods [name derived from the merging of Ocean Beauty Seafoods and Icicle Seafoods] has only shore-based facilities; therefore, it has not deployed any new equipment on a floating processor. He proffered that the types of equipment used onshore are not practical for use on offshore processing facilities; therefore, that would not affect the fiscal note.

[10:13:55 AM](#)

CHRIS BARROWS, President, Pacific Seafood Processors Association, noted only that he could not expound more on what Mr. Palmer had already said.

[10:14:08 AM](#)

REPRESENTATIVE KREISS-TOMKINS, based on the answers he had received, questioned why that language was even necessary in HB 188.

[10:14:27 AM](#)

MS. PERMAN, in response to Chair Tarr, said she could not offer more of an explanation without doing some research.

10:14:35 AM

CHAIR TARR asked whether research could be completed by the end of the day or next day.

10:14:55 AM

MS. REYNOLDS said she could try to get an answer to the committee as quickly as possible.

10:15:11 AM

REPRESENTATIVE KREISS-TOMKINS, in terms of the fiscal note or forgone state revenue, asked Ms. Reynolds what proportion would be attributable to tax credits associated with cod versus pollock.

10:15:38 AM

MS. REYNOLDS answered that regarding the fiscal note, the department does not have a specific estimate for cod or pollock. She mentioned there being a forecast based on Spring 2021 combined with historic credit utilization rates for salmon and herring.

10:16:30 AM

REPRESENTATIVE KREISS-TOMKINS noted that the fiscal note reflects \$2.8 million in fiscal year 2022 (FY 22) up to a peak in FY 26 of \$5 million. He asked how the department approximates "how much forgone revenue would be attributable to expansion of the credit to pollock and cod."

MS. REYNOLDS answered that the starting point was the historic range in value from 2017 to 2020, from \$2.3 million to \$4.4 million. She said, "This value represents the credit for the qualified investments in property and equipment that were used to create the value-added salmon and herring products only." She said DOR anticipates the value will increase in future as a result of the addition of cod and pollock, but it is difficult to estimate the impact "because the cod and pollock property and equipment has never been eligible for this credit." Ms. Reynolds elaborated on her previous answer, as follows:

And so, what Department of Revenue did to forecast the impact is we used the Spring 2021 revenue forecast for total value of cod and pollock subject to the

fisheries' business tax and combined that with the historic utilization rates for ... the salmon and herring equipment. And so, we came up with an estimated value of the credit for fiscal years 2022-2026 that ranges between \$2.8 million and \$5 million.

[10:19:08 AM](#)

REPRESENTATIVE KREISS-TOMKINS said it is hard to imagine that adding the largest fishery in Alaska by total capital would result in the same tax credit. He emphasized the importance of receiving more information when considering such an impact to the budget.

[10:20:29 AM](#)

MS. REYNOLDS responded that the forecast for the credit is approximately half a million to .6 million dollars more than historical value to the credit; therefore, there is a slight increase to the historical value. She reemphasized the difficult nature of making a prediction.

[10:21:31 AM](#)

MR. PALMER related that the diversification of products balanced out the market and helped drive tax revenue. He talked about cod, the food service industry, and equipment, and he indicated that a tax credit would encourage processors to expand their equipment to get more value out of the resource.

[10:23:51 AM](#)

REPRESENTATIVE KREISS-TOMKINS said he appreciated the input but reemphasized the need to "know the numbers" in order to determine "what this expansion would mean."

[10:24:10 AM](#)

MR. BARROWS noted there had been a regressive analysis in terms of [the effect of a tax credit] for salmon, which has resulted in the generation of an additional \$114 million of revenue to the state's general fund. He said that is based on over \$37 million in total credit paid from 2004 to 2019. He said he thinks that provides a foundation for the economics associated with the ability to increase product form. This is forecasted to occur in the pollock and cod sector. He said pollock is about 23 percent of the total ex-vessel revenue generated in

Alaska fisheries, while cod is about 33 percent, and that is out of the total ex-vessel valuation of \$2 billion. He noted there is still return of investment back to the state regardless of whether it's on-shore or off-shore production. He reviewed the aforementioned information regarding federal law. He stated there is significant gain and return on investment to be had.

[10:27:36 AM](#)

REPRESENTATIVE KREISS-TOMKINS emphasized he was seeking the estimate of foregone revenue with pollock and cod.

[10:27:57 AM](#)

MR. BARROWS answered that he does not have the specific number, which he said is hard to determine on a plan yet undeveloped.

[10:28:31 AM](#)

REPRESENTATIVE KREISS-TOMKINS asked for clarification regarding the effect of the tax credit on state and municipal revenues.

MS. REYNOLDS answered that there is one credit that reduces the municipal share, but it is not this one; this tax credit would be applied against the state share.

[HB 188 was held over.]

[10:29:53 AM](#)

ADJOURNMENT

The House Special Committee on Fisheries meeting was recessed to Saturday, 5/15/21, 12:15 p.m. [The meeting reconvened 5/15/21 at 12:48 p.m.]